

## **FINANCIAL INCLUSION FOR DIRECT BENEFIT TRANSFER GROWTH AND HURDLES**

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### **ABSTRACT**

Financial inclusion means linkage of a person with financial network. India has a huge population and more than 60% live in villages. Government spends crore of rupees on subsidy for betterment of poor people but because of nexus of middlemen only 10 to 15% reach to deserving people to remove that anomaly government is connecting more and more people with banks so that subsidies benefit in form of direct benefit transfer could reach to them directly. Since 2005 after announcing of financial inclusion lot of efforts have been done in this regard but so many problems arose in implementation of financial inclusion and direct benefit transfer, if those hurdles are not taken care of properly than benefit of direct cash subsidies could not reach to poor people of the country as a result this will be proved as mere wastage of funds & energy of Government machinery and to play with the dreams of economic weaker section of the country. This paper is a small attempt to find out current scenario in regard to financial inclusion and its impact on direct benefit transfers and an effort to present growth in this field and hurdles in the way of implementation of the schemes.

**KEYWORDS:** Financial Inclusion, Aadhaar Cards, No Frill Accounts, Basic Saving Deposit Accounts, Direct Benefit Transfers, BPL (Below Poverty Line), LPG (Liquefied Petroleum Gas)

### **INTRODUCTION**

Financial inclusion drive started by Reserve Bank of India in 2005. It is an effort to attach maximum people of the country with bank dealings. In financial inclusion drive banks were instructed by RBI to open no frill accounts known as basic saving deposits accounts. So, financial inclusion is a drive which attaches economic weaker section or below poverty line families with banking system at zero balance. This is an effort to include people of the country with banking system so benefit of subsidies could be transferred to their account directly. Since independence government adopted middlemen system for giving subsidies. Means so many agencies established to disburse subsidies to economic weaker section of the society. India developed world's largest public distribution system to disburse subsidies. But due to nexuses between different categories of middlemen those were responsible for disbursement of subsidies corruption was at its highest level in this segment. To stop leakage of funds government decided to transfer subsidies directly to the beneficiaries account in form of cash. So that middlemen could be removed & 100% benefit should be transferred to beneficiaries account. For that purpose each & every family should be attached with banks so that benefit of subsidies could be transferred to their accounts and this was the reason to start financial inclusion drive.

In budget speech of 2005-06 The Finance Minister stated that "financial inclusion provides business opportunities to the financial institutions at the bottom of pyramid". In 2005-06 RBI directed public sector banks to open no frill accounts now known as basic saving deposit accounts with zero or very low balance, so that every poor below poverty line family could be connected to banking system of the country. By November end 2009 15788919 no frill accounts have been opened in the country and 155 districts in 19 states & 6 union territories were declared to have achieved 100% target of financial inclusion. (Reports on trends and progress of banking in India 2007-08 by RBI). Till date banks are attaching BPL families to banks by opening no frill accounts. But question arises in long run is it beneficial for banks to open such a

huge number of no frill accounts? It seems costly affair for banks because banks have to open millions of accounts at zero balance and at the same time thousands of new branches in remote areas to promote financial inclusion. No doubt direct benefit transfer of funds is best way to disbursing subsidies to disadvantaged group of people because the system stop leakage of funds and beneficiaries will get benefit of subsidies directly. At the same time model adopted by government on financial inclusion on aadhaar based system have so many problems. These should be carefully analyzed before implementing the programme in the whole country. This paper is to find out various difficulties in financial inclusion drive. So, this is a conceptual based paper to find out progress drawback & challenges in direct benefit transfer concerned with financial inclusion drive.

## OBJECTIVES

In direct benefit transfer model of subsidy disbursement it is necessary to have accessibility with banks so that subsidies should be directly transferred into bank account of beneficiaries. In financial inclusion drive banks from 2005 onwards banks opened millions of no frill accounts. Since independence to 2009 banks have around 54000 branches. From 2009 to 2013 in span of four years banks opened more than 48000 new branches & up to 31<sup>st</sup> March, 2013 country has 102343 bank branches, this happened because of financial inclusion drive.

Main objective of the paper is to study the impact of financial inclusion drive on banks& to study the contribution of different sector banks in the field of financial inclusion.

The objective of the paper is to find out role of financial inclusion for direct benefit transfer growth takes place in the field and challenges and hurdles in proper implementation of both the projects.

India is a developing country where 37% population is living below poverty line. This data is as per Tendulkar committee reports which have been accepted by planning commission of India. Country having population of 1.25 billion people out of which more than 40 million are living as B P L families, now according to financial inclusion drive banks have been directed to open accounts of such a huge population. Accounts opened for the sake of disbursing subsidies will be used by beneficiaries only to withdraw subsidies so these accounts will be non operative except withdrawal of subsidies. What will be the impact on performance on the workings of banks & on their financial health? Due to opening of no frill account operating cost of banks will be effected and on the other hand banks have been opened thousands of new branches for financial inclusion it will have huge effect on their infrastructure development cost. This paper is an attempt to find out impact of financial inclusion on banks and to study other hurdles in the way of disbursement of subsidies.

## CURRENT SCENARIO

- Government has converted the system of subsidy from middlemen oriented to direct benefits transfer to beneficiaries. Initially 29 different schemes are included in the direct benefit transfer system. Schemes like scholarship to students of schedule caste, schedule Tribe& other different categories, pension schemes for aged, disabled, Dhanalaxmi, Janani Suraksha and most important is L P G is included in direct benefit transfer system. Now for above written number of schemes, subsidies will be directly transferred to accounts of beneficiary.
  - A For getting subsidies person should have aadhaar card, although Honorable Supreme Court in its interim order cleared that aadhaar card is not necessary for getting essential services but government of India has been giving aadhaar cards for giving benefits of direct cash transfers. Government has spent 50000 crore rupees on this scheme.
  - People should have bank account so that subsidy could be transferred to his or her account directly.

- Account holder must attach aadhaar card with bank account & with agency from where he is getting product for example in case of gas subsidy he or she must attach aadhaar card number & bank account number with the Gas agency.

UIDAI (Unique Identification Authority of India) under the chairmanship of Mr. Nandan Nilekani has issued more than 40.29 crore aadhaar cards. The authority has a target to issue more than 60 crore aadhaar cards by 2014. According to planning commission of India by January, 2014, 289 districts of the country will be covered for giving LPG subsidy to beneficiaries in form of direct benefit transfers. 121 districts have already been covered for giving benefit of LPG subsidies in form of direct benefit transfer scheme.

- To fulfillment the objective of financial inclusion bank are in a process of opening of basic saving deposit accounts. Banks have opened 103.21 million accounts under financial inclusion up to June, 2012. The figure of no frill accounts in 2010 was 49.33 million. 150 million basic saving deposits accounts haven opened up to December 2012. The country has seen three fold growth in opening of these accounts in last three years. In census of 2011 it was declared that only 58.7% households in India avail banking services out of which 54.4% in rural areas and 67.8% in urban areas. As per report published in the Hindu Business Line on April 15<sup>th</sup> 2013 only two fifth of population of the country have accessibility with banks. RBI has directed to private sector Banks & to foreign banks to open basic saving deposit accounts with zero balance to promote financial inclusion. In September, 2011 UIDAI issued a letter to RBI stating that aadhaar card is a valid document for opening of bank account without limitation applicable to small accounts however advisory added about due diligence by the banks in terms of address verification of customers.
- In financial inclusion drive banks have been directed by RBI to open up new branches & outlets so that more population could be covered under accessibility with financial organizations. Total number of banking outlet including branches, BC (business correspondent) outlets and other models in India rose from 54258 up to March, 2010 to 147534 up to March, 2012s. At the end of the year 2011, 1.07 lakh villages were covered under financial inclusion. More than 200000 villages covered and got accessibility with banks from 2010 to 2013 in the span of three years. From March, 2013 3.52 lakh villages were in the process of getting coverage under financial inclusion drive as per data in the wall street journal live mint September 2013. P Chidambaram finance minister of India said on 29<sup>th</sup> March, 2013 in Lucknow on an average 6000 branches were being opened in last two or three years to expand banking services in the country. Dr K C Charkrabarty Deputy governor of RBI declared in 32<sup>nd</sup> Skoch Summit held at Mumbai on 6<sup>th</sup> June, 2013 that country have 2.70 lakh banking outlets, 4.85 lakh villages have been identified where population is less than 2000 person and in these village banking services are still not available. He said that instructions are given to banks to open new branches where banking facility is still not available. India has 37953 branches in rural area and total number of bank branches in India as up to March 31<sup>st</sup>, 2013 is 1023343.

**Table 1: Progress in Financial Inclusion**

SR	Particulars	Year Ended Mar 10	Year Ended Mar 11	Year Ended Mar 12	Year Ended Mar 13	Progress Apr 10-Mar 13
1	Banking Outlets – Rural Branches	33378	34811	37471	40845	7467
2	Banking Outlets – BCs	34174	80802	141136	221341	187167
3	Banking Outlets - Other Modes	142	595	3146	8424	8282
4	Banking Outlets –TOTAL	67694	116208	181753	270610	202916

**Source:** Data from [http://rbi.org.in/scripts/BS\\_SpeechesView.aspx?Id=813](http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=813)

- RBI adopted business correspondent's model for expansion of financial services. Business correspondent's work as middlemen between bank and account in remote areas & in villages' government appointed business correspondents as middlemen between beneficiaries of subsidies and banks. They withdraw money from banks and give that to beneficiary of subsidies. RBI permitted to banks to use the services of business correspondents for expansion of financial inclusion. Retired employees, post office agents, insurance agents, karyana merchants & even companies registered under companies act can work as business correspondents. By March 2012, 76801 villages 3653 urban areas were under cover of business correspondents. Business correspondents deposit withdraws money for basic saving bank deposit account holder. They use micro A T M machines. As a part of financial inclusion drive interoperability has been initiated by RBI so that with use of technology business correspondents can serve other areas account holder with the help of micro ATM machine. Number of business correspondents is 152000 up to December, 2012. Upto march, and 2013 187167 business outlet under BC model are working in the country. During 2012-13 18.38 crore transactions valued at 16533 crore had been undertaken by business correspondents. Government has provided 500 million rupees to training commission and for doing paper work with UIDAI. Business correspondents are known as bank saathi in villages. Self help groups are coming in big way to opt the job of business correspondents.

## FINDINGS

- Basically one of the major purposes of financial inclusion is to link people with banks to give those benefits of subsidies in form of cash. UIDAI has issued more than 402.9 million aadhaar cards till date country having population 1.25 billion still more than 800 million do not have aadhaar cards. Aadhaar card is basic requirement to get subsidies in DBT scheme; on the other hand Government has expanded its LPG subsidy in cash form in 121 districts & there is planning to cover 289 districts by January, 2014. For getting subsidy consumer must have aadhaar card, it must be linked with bank and both documents must have linkage with gas agency. Now question arises, is it possible to give the benefit of this scheme in the districts properly where this scheme has been launched. In districts where scheme has been started 20% to 30% population did not get aadhaar card and out of which 30 to 40% did not link up it with banks. For example in Wardah district of Maharashtra where the scheme has already been launched officials say 80% of population has been enrolled for aadhaar but is about remaining percent that very large number of people are left out said Kiran Maghe of the all India Democratic women association. Those who are left out most of them are poor. After getting enrollment for aadhaar card 6 to 8 months take place to get a card large number of families do not have bank accounts. How would they will able to get benefits of subsidy? To launch this scheme without proper allotment of cards and linking those with banks and agencies means depriving of people for getting subsidies. Because of lack of resources and knowledge poor will be suffer more so real benefit of subsidies could not reach to poor in half efforts done by Government.
- RBI started financial inclusion in 2005. upto December, 2012 over 150 million basic saving deposit accounts have been opened. Most of these bank accounts are opened by public sector banks with zero balance; although RBI has given guidelines to private sector banks for the same but private banks are less interested in opening of basic saving deposit account. 150 million account opened but only 30 million transactions take place up to December, 2012. transaction in no frill accounts is extremely low and a matter of worry. Financial inclusion is not only concerned with opening of number of accounts, if transactions in these accounts are missing it defeat the purpose of financial inclusion.

- People are facing difficulties in opening of basic saving deposits accounts with banks on the basis of aadhaar cards as report published in The Hindu 16<sup>th</sup> September, 2012. D K Mittal finance service secretary admitted that states concerns are valid that account opening is difficult only with aadhaar cards Honorable Supreme Court has also given direction that having a aadhaar card is voluntary it should not be made compulsory for getting any benefit(25<sup>th</sup> September, 2013.).
- Bank managers show lack of interest in opening of basic saving deposit accounts. Most of them seem it as a burden on profitability of branch. The former governor of Reserve Bank of India D Subbarao said “the general impression I got is that frontline branch managers treat no frill accounts as nuisance and low income household as an intrusion into their time and their business”. Banks have to do lot of efforts in the field of financial inclusion. Data of Indian Council for Research on International Economic Relations (ICRIER) shows that India has 50<sup>th</sup> position in the list of 100 countries to extent to reach to banking services.
- On one side there is a burden on public sector banks to open basic saving deposit accounts or no frill accounts on other side these banks are dealing with shortage of employees. Public sector banks have problem of work load. The number of employees was 8.83 lakh in 1998-99 and it came down to 7.71 lakh in 2011-12. In the span of thirteen years bank branches, number of account increased manifold. Reaching to the target of financial inclusion will have no meaning if there is a shortage of employees in banks. Under staff banks could not provide better services, it will lead to increase in bad assets for banks in future. The data shows the real picture of the state of public sector banks as for number of employees is concerned.

**Table 2**

	No. of Banks	No. of Branches	No. of Employees	Business per Employees (%)
Public Sector Banks	26	69498	7.71 lakh	115
Private Sector Banks	20	13408	2.14 lakh	99

**Source:** RBI Data 2011-12

- India is having more than 700000 villages still 4.70 lakh villages are there where banking services are not available. Public sector banks have 23286 branches in rural area out of total 70421 branches; means they have 37% branches in rural area but on the other side private banks have total branches 14584 out of which only 1937 are in rural area it is 13.5%. foreign banks have only 8 branches in rural area out of total 331 branches. their share in term of percentage is near about 3%. RBI has issued order for new banks to open at least 25% branches where banking facility is not available. It is difficult for banks to establish infrastructure in remote areas.

**Table 3: Bank Group-Wise Number of Branches as on 31.03.2013**

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
Public Sector Banks	23286	18854	14649	13632	<b>70421</b>
Private Sector Banks	1937	5128	3722	3797	<b>14584</b>
Foreign Banks	8	9	65	249	<b>331</b>
Regional Rural Banks	12722	3228	891	166	<b>17007</b>
<b>Total</b>	<b>37953</b>	<b>27219</b>	<b>19327</b>	<b>17844</b>	<b>102343</b>

**Source:** Data from <http://financialservices.gov.in/banking/financialinclusion.asp>

Private sector banks and foreign banks don't seem interested in opening of proportionately more branches in rural areas. In remote area & villages business is less and private banks find it difficult to open branches here. Banks

generally find it as a costly process, they have to employ employees, infrastructure cost involve ,more over operational transactions are less in remote areas on the other side private banks are in finance business to earn profit so they show less interest in rural areas. More than 60% population of India is living in villages without setting good set up of banks in villages no one can fulfill the dream of financial inclusion and direct benefit transfers to poor people. The success in direct benefit scheme is not possible without linking whole population to financial network and most important is maximum poor population which wants benefit of subsidies resides in villages. So, without strengthening financial structure in village DBT scheme is a failure.

- Banks in remote areas provide banking facilities to poor people, through business correspondents. Business correspondents work as middlemen between banks and account holder. They collect cash from bank and disburse it to account holder in remote areas & with the use of micro ATM they provide them detail of their accounts. According to the study conducted by the national association of community development finance institution find the lack of interest in form of low compensation is threatening the very existence of BC model. The short coming of the business correspondent's model is low cost structure, generally banks lack of interest because banks are unusually busy with their profitable business. Financial illiteracy, lack of knowledge& lack of grievance redressal cell are other factors those come in the way of proper implementation of this model. For direct benefit transfers business correspondents will disburse cash of subsidies to villagers again it may become the cause of corruption in future, because in public distribution system of subsidy main cause of corruption is middlemen.

## SUGGESTIONS

- Government has spent 50000 crore on aadhaar card programme still 40% work has been done more than half have way to cover yet. This is valid document though not mandatory as per honorable Supreme Court Order in September, 2013. Government should run awareness programme to having aadhaar at grass root level and in big way. What to talk about villages? Even in cities people don't have aadhaar cards because of ignorance. Government should increase number of outlets providing aadhaar cards so that people can easily obtain the card. basic saving deposit accounts should be opened at war foot level 150 million account have been opened in this category and Government is expanding its LPG subsidy scheme to 289 districts from January 2014. Without accounts of all households in those districts and without linking those with gas agency mean deprive off the right of a person to get subsidy & that is happening where the scheme has been launched.
- Government should have check on private sector banks in regard to their apathy in opening of basic saving deposit account. At ground level banks ignore or show their passive attitude in opening of basic saving deposit accounts. Private Banks even try to impose their hidden cost on these accounts. Government should find out new ways to reduce the operating and other cost on account of basic saving deposit account so that banks should have positive attitude towards these account.
- Government should allocate special funds for public sector banks as a funding of opening basic saving deposit accounts so that public sector banks can meet out their expenditure of opening account out of those funds. More recruitment of employees in public sector banks must be done so that burden of work load on employee could be reduced.
- RBI should make efforts to increase branches of private sector and foreign banks to increase branches in rural sector where percentage of branches of these banks is very low as compare to percentage in public sector.

- Post office net work should be used for opening of accounts because India has great net work of post offices in the country second operating cost of these accounts will be less in post offices. Although this practice is in picture for MANREGA payments but it should expand for opening of basic saving bank account on war foot level. Without linking every person to financial accessibility direct benefit transfer scheme will not reach to real beneficiary.
- Business correspondents model should not be used for disbursing direct benefit transfer money of subsidy because this may cause corruption in future. Where involvement BC is necessary than for those more fund must be allocated for business correspondents to pay them handsome amount so that they would not think of earning through unfair means.

## CONCLUSIONS

Financial inclusion is must for proper growth of the country. Direct benefit transfer benefits could not reach to poor people in absence of financial inclusion. Government spend 300000 crore rupees on subsidy if this money directly receivable to poor people India will be converted into developed countries in future and for poor people real meaning of independence will come into existence. Getting of aadhaar cards and in opening up of basic saving deposit accounts for poor has lot of hurdles. At grass root level people are facing difficulties, and there is a lot of trouble for poor people to avail cards, accounts at zero balance and their linkage with agencies for where they could get subsidies, if these problems are not address properly than it will not be for the benefit of poor rather only to get political advantage by politicians to fulfill their vested interests.

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